

Pearl River Valley Water Supply District
A Component Unit of the State of Mississippi

Auditor's Reports and Financial Statements

June 30, 2013



Pearl River Valley Water Supply District
A Component Unit of the State of Mississippi
June 30, 2013

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Independent Auditor's Report on Financial Statements and Supplementary Information

Board of Directors
Pearl River Valley Water Supply District
Ridgeland, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of Pearl River Valley Water Supply District (the District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of Pearl River Valley Water Supply District as of June 30, 2013, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of expenditures of federal awards required by OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2013, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

BKD, LLC

Jackson, Mississippi
December 16, 2013

Pearl River Valley Water Supply District
A Component Unit of the State of Mississippi
Management's Discussion and Analysis
Year Ended June 30, 2013

Introduction

This section presents management's discussion and analysis of the financial position and performance of the Pearl River Valley Water Supply District (the District) for the year ended June 30, 2013. Please read this narrative overview and analysis in conjunction with the District's basic financial statements which follow this section.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's financial reporting, which is comprised of the basic financial statements and notes to basic financial statements.

The basic financial statements include government-wide financial statements and fund financial statements. The government-wide financial statements include a statement of net position and a statement of activities. Fund financial statements include governmental and proprietary fund financial statements. The primary differences between the government-wide and governmental fund financial statements relate to the accounting treatment of capital assets and long-term liabilities.

Financial Analysis

The District's net position at June 30, 2013 and 2012 was \$46,541,925 and \$46,385,403, respectively. Total net position increased \$156,222 between June 30, 2013 and 2012. Below is a summary of total net position at June 30, 2013 and 2012.

Pearl River Valley Water Supply District
A Component Unit of the State of Mississippi
Management's Discussion and Analysis
Year Ended June 30, 2013

	2013	2012	\$ Change
Assets			
Cash and cash equivalents	\$ 7,029,522	\$ 6,529,519	\$ 500,003
Receivables	1,900,306	1,823,364	76,942
Capital assets	39,770,182	40,031,232	(261,050)
Total assets	<u>\$ 48,700,010</u>	<u>\$ 48,384,115</u>	<u>\$ 315,895</u>
Liabilities			
Accounts payable, accrued liabilities and customer deposits	\$ 1,130,723	\$ 1,274,066	\$ (143,343)
Long-term liabilities	658,084	724,646	(66,562)
Unearned revenue	369,278	-	369,278
Total liabilities	<u>2,158,085</u>	<u>1,998,712</u>	<u>159,373</u>
Net Position			
Net investment in capital assets	39,770,182	40,031,232	(261,050)
Restricted	-	2,600	(2,600)
Unrestricted	6,771,743	6,351,571	420,172
Total net position	<u>46,541,925</u>	<u>46,385,403</u>	<u>156,522</u>
Total liabilities and net position	<u>\$ 48,700,010</u>	<u>\$ 48,384,115</u>	<u>\$ 315,895</u>

The Ross Barnett Reservoir (the Reservoir) is a 33,000 acre impoundment on the Pearl River, just north of Jackson, Mississippi. Ownership and operation of the Reservoir, shoreline and surrounding property are vested in the District, which is an agency of the State of Mississippi. The District was created in 1958 by the Mississippi Legislature (the Legislature) to provide water supply and water-oriented recreational activities. The District has over 50,000 total acres, with the shoreline consisting of parks, timber and land leases. The District has over 5,300 water customers, provides water to the City of Jackson for treatment and has approximately 2.75 million visitors each year.

The District is responsible for the maintenance of the Reservoir dam, spillway, roads and streets and approximately 50 public recreation facilities, including 5 campgrounds and the Reservoir. The spillway, patrol and campgrounds are staffed 24 hours a day. The maintenance staff is on call to respond to

Pearl River Valley Water Supply District
A Component Unit of the State of Mississippi
Management's Discussion and Analysis
Year Ended June 30, 2013

emergencies and to ensure adequate personnel are available to provide for the safety and comfort of campers, water and sewer customers and visitors.

The District is authorized to spend funds for capital improvements such as parks, campgrounds, launching ramps, parking lots and access roads for the public benefit. Other capital improvement funds are used to develop parcels of land for residential and commercial lease to provide a source of revenue to the District.

The District charges no fees for the use of any of its public facilities, except for the campgrounds and group picnic pavilions. There are five counties which are members of the District – Hinds, Rankin, Madison, Scott and Leake. Each county is represented by two District board members, and one member each is appointed by four agencies of the State of Mississippi.

Net capital assets decreased to \$39,770,182 at June 30, 2013, a decrease of \$261,050 from June 30, 2012. During fiscal 2013, additions to capital assets totaled \$2,153,801, and \$2,107,151 was recorded as depreciation expense. Capital asset additions primarily related to shoreline improvement projects, sewer improvement projects and various equipment additions.

Long-term liabilities decreased \$66,562, primarily as a result of the workers' compensation insurance liability decreasing during fiscal 2013. Unearned revenue of \$369,278 was recognized in fiscal 2013 for advance lease payments.

The District's operations include governmental and business-type activities. The District's business activities include the activities of water and sewer operations and the Reservoir's sanitation system. A summary of revenues and expenses for the years ended June 30, 2013 and 2012 follows.

Pearl River Valley Water Supply District
A Component Unit of the State of Mississippi
Management's Discussion and Analysis
Year Ended June 30, 2013

	2013	2012	\$ Change
Revenues			
Governmental activities			
Lease rentals	\$ 5,683,088	\$ 5,080,081	\$ 603,007
Campground fees	2,081,019	1,957,122	123,897
Timber sales	221,669	96,342	125,327
Transfer fees	77,530	77,417	113
Building permit fees	97,041	63,086	33,955
Grant revenues	657,984	2,182,335	(1,524,351)
Other	433,598	377,358	56,240
Total governmental activities	<u>9,251,929</u>	<u>9,833,741</u>	<u>(581,812)</u>
Business-type activities			
Water sales	1,614,242	1,701,396	(87,154)
Sewer charges	1,379,984	1,407,133	(27,149)
Other	187,693	310,902	(123,209)
Total business-type activities	<u>3,181,919</u>	<u>3,419,431</u>	<u>(237,512)</u>
General interest income	<u>4,825</u>	<u>4,727</u>	<u>98</u>
Total revenues	<u>12,438,673</u>	<u>13,257,899</u>	<u>(819,226)</u>
Expenses			
Governmental activities			
General and administrative	1,938,562	2,085,496	(146,934)
Maintenance of facilities	2,915,520	2,595,398	320,122
Campground operations	2,226,596	2,039,781	186,815
Spillway operation	622,509	628,983	(6,474)
Policing	663,342	577,161	86,181
Special projects	112,183	69,773	42,410
Shop and equipment	484,364	373,309	111,055
Miscellaneous	48,849	49,815	(966)
Total governmental activities	<u>9,011,925</u>	<u>8,419,716</u>	<u>592,209</u>
Business-type activities			
Water and sewer operations and sanitation system	<u>3,270,226</u>	<u>3,278,816</u>	<u>(8,590)</u>
Total expenses	<u>12,282,151</u>	<u>11,698,532</u>	<u>583,619</u>
Change in net position	<u>\$ 156,522</u>	<u>\$ 1,559,367</u>	<u>\$ (1,402,845)</u>

Pearl River Valley Water Supply District
A Component Unit of the State of Mississippi
Management's Discussion and Analysis
Year Ended June 30, 2013

As a state agency, the District is subject to the appropriations process for authorization for expenditures of its funds. The District currently receives no direct appropriations from the Legislature nor any tax proceeds from the five counties which make up the District. However, from time to time, grant funds are received for special projects such as campgrounds, road projects and multi-purpose trails.

Two of the more significant sources of the District's revenues are derived from lease rentals and campground fees. The District leases over 6,300 parcels of land around the Reservoir. Total revenues for the years ended June 30, 2013 and 2012, totaled \$12,438,673 and \$13,257,899, respectively. Lease rental revenue of \$5,683,088 for fiscal 2013 increased in comparison to fiscal 2012 lease rental revenue of \$5,080,081. Timber harvest sales during 2013 were increased to \$221,669 in comparison to fiscal 2012 of \$96,342. The District received no development fees in fiscal years 2013 and 2012, as the District executed no new development leases in either year. The District received federal and state grant revenues of \$657,984 in 2013, a decrease of \$1,524,351 from 2012.

Expenses related to governmental activities increased by approximately 7.0% over comparable fiscal 2012 expenses.

The District's governmental funds consist of the General Fund and Capital Projects Fund. During the year ended June 30, 2013, the net increase in the fund balance of the General Fund was \$203,254, as compared to an increase in fiscal 2012 of \$690,001. The net increase is primarily attributed to increased grant revenues and an increase in land lease revenues from fiscal 2012. During the year ended June 30, 2013, the net decrease in the fund balance of the Capital Projects Fund was \$61,868, which is less than the decrease of \$190,762 during fiscal 2012, due to fewer land parcels being prepaid for leasing.

During the year ended June 30, 2013, budgeted revenues for the District's General Fund were \$11,988,000, compared to actual revenues of \$9,252,646, a difference between actual and budgeted revenues of \$2,735,354. During the year ended June 30, 2013, budgeted expenditures for the District's General Fund were \$11,404,000, compared to actual expenditures of \$9,049,392. The District budgets for campground fees, timber sales, development of property fees and miscellaneous grants. The District did not receive the budgeted amount in any of these categories due to decreased campground usage, less timber cut, fewer new parcels developed and reduced grant activity, creating the difference in budgeted to actual revenues. The major variance for expenditures is primarily due to the budgeted revenue for grant income, which the District did not receive the entire amount because they did not expend all the funds.

The District operates four water and wastewater systems as reported in the Enterprise Fund. During the year ended June 30, 2013, operating revenues from these activities were \$3,181,919, a decrease of \$237,512.

Operating expenses of the water and sewer operations and sanitation system were \$3,270,226 in fiscal 2013, an increase of less than 1% over fiscal 2012.

The District currently maintains an unrestricted net position reserve in the water and sewer fund for future repairs, replacements and capital additions to the water and sewer systems.

Pearl River Valley Water Supply District
A Component Unit of the State of Mississippi
Management's Discussion and Analysis
Year Ended June 30, 2013

Contacting the District's Financial Management

This financial report is designed to provide the District's Board of Directors, member local governments, customers, creditors and area citizens we serve with a general overview of the District's financial position at June 30, 2013, and to demonstrate the District's proper accountability for the monies, grants and contractual arrangements that it receives. If you have questions about this report or need additional information, please contact the General Manager or the Director of Finance at P. O. Box 2180, Ridgeland, MS 39158-2180. Also, please visit our website at www.therez.ms.

Pearl River Valley Water Supply District
A Component Unit of the State of Mississippi
Statement of Net Position
June 30, 2013

	Governmental Activities	Business-type Activities	Total
Assets			
Cash	\$ 3,900,591	\$ 3,128,931	\$ 7,029,522
Receivables, net	1,563,377	336,929	1,900,306
Interfund balances	656,232	(656,232)	-
Capital assets			
Land	7,688,569	-	7,688,569
Construction in process	-	582,425	582,425
Machinery and equipment	5,180,877	1,701,025	6,881,902
Dams and other improvements	58,759,556	-	58,759,556
Water and sewer system	-	20,189,794	20,189,794
Less accumulated depreciation	(43,947,293)	(10,384,771)	(54,332,064)
	<u>27,681,709</u>	<u>12,088,473</u>	<u>39,770,182</u>
Net capital assets			
	<u>27,681,709</u>	<u>12,088,473</u>	<u>39,770,182</u>
 Total assets	 <u>\$ 33,801,909</u>	 <u>\$ 14,898,101</u>	 <u>\$ 48,700,010</u>

	Governmental Activities	Business-type Activities	Total
Liabilities and Net Position			
Liabilities			
Accounts payable, accrued liabilities and customer deposits	\$ 673,194	\$ 457,529	\$ 1,130,723
Long-term liabilities			
Due or payable within one year	41,123	9,027	50,150
Due or payable after one year	498,506	109,428	607,934
Unearned revenue	369,278	-	369,278
Total liabilities	<u>1,582,101</u>	<u>575,984</u>	<u>2,158,085</u>
Net Position			
Net investment in capital assets	27,681,709	12,088,473	39,770,182
Unrestricted	<u>4,538,099</u>	<u>2,233,644</u>	<u>6,771,743</u>
Total net position	<u>32,219,808</u>	<u>14,322,117</u>	<u>46,541,925</u>
Total liabilities and net position	<u>\$ 33,801,909</u>	<u>\$ 14,898,101</u>	<u>\$ 48,700,010</u>

Pearl River Valley Water Supply District
A Component Unit of the State of Mississippi
Statement of Activities
Year Ended June 30, 2013

Functional/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities						
General and administrative	\$ 1,938,562	\$ -	\$ -	\$ (1,938,562)	\$ -	\$ (1,938,562)
Maintenance of facilities	2,915,520	6,512,926	53,322	3,650,728	-	3,650,728
Campground operations	2,226,596	2,081,019	479,467	333,890	-	333,890
Spillway operation	622,509	-	-	(622,509)	-	(622,509)
Policing	663,342	-	125,195	(538,147)	-	(538,147)
Special projects	112,183	-	-	(112,183)	-	(112,183)
Shop and equipment	484,364	-	-	(484,364)	-	(484,364)
Miscellaneous	48,849	-	-	(48,849)	-	(48,849)
Total governmental activities	9,011,925	8,593,945	657,984	240,004	-	240,004
Business-type Activities						
Water and sewer operations and sanitation system	3,270,226	3,159,652	22,267	-	(88,307)	(88,307)
Total governmental and business-type activities	\$ 12,282,151	\$ 11,753,597	\$ 680,251	240,004	(88,307)	151,697
General revenues						
Interest income				2,613	2,212	4,825
Change in net position				242,617	(86,095)	156,522
Net position at beginning of year				31,977,191	14,408,212	46,385,403
Net position at end of year				\$ 32,219,808	\$ 14,322,117	\$ 46,541,925

Pearl River Valley Water Supply District
A Component Unit of the State of Mississippi

Balance Sheet - Governmental Funds

Year Ended June 30, 2013

	General	Capital Projects	Total Governmental Funds
Assets			
Current Assets			
Cash	\$ 3,520,593	\$ 379,998	\$ 3,900,591
Receivables	1,563,377	-	1,563,377
Due from other funds	759,591	-	759,591
	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 5,843,561</u>	<u>\$ 379,998</u>	<u>\$ 6,223,559</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 380,868	\$ -	\$ 380,868
Accrued liabilities	292,326	-	292,326
Due to other funds	-	103,359	103,359
Unearned revenue	369,278	-	369,278
	<hr/>	<hr/>	<hr/>
Total liabilities	<u>1,042,472</u>	<u>103,359</u>	<u>1,145,831</u>
Fund Balances			
Committed to			
Capital improvements	100,000	276,639	376,639
Dam and infrastructure improvements	1,348,000	-	1,348,000
General government	166,000	-	166,000
Assigned to			
Dam and infrastructure improvements	800,000	-	800,000
Capital improvements	500,000	-	500,000
Unassigned	1,887,089	-	1,887,089
	<hr/>	<hr/>	<hr/>
Total fund balances	<u>4,801,089</u>	<u>276,639</u>	<u>5,077,728</u>
	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	<u>\$ 5,843,561</u>	<u>\$ 379,998</u>	<u>\$ 6,223,559</u>

Pearl River Valley Water Supply District
A Component Unit of the State of Mississippi
Reconciliation of the Balance Sheet
to the Statement of Net Position - Governmental Funds
Year Ended June 30, 2013

Total Fund Balance - Governmental Funds	\$ 5,077,728
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Amounts Reported for Governmental Activities in the Statement
of Net Position are Different Because

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$71,629,002, and the accumulated depreciation is \$43,947,293.	27,681,709
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
Accrued workers' compensation	(203,446)
Compensated absences	(336,183)

Total net position of governmental activities	\$ 32,219,808
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Pearl River Valley Water Supply District
A Component Unit of the State of Mississippi
Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2013

	General	Capital Projects	Total Governmental Funds
Revenues			
Interest on investments	\$ 2,303	\$ 310	\$ 2,613
Lease rentals	5,683,088	-	5,683,088
Assignment fees	77,530	-	77,530
Building permit fees	97,041	-	97,041
Campground fees	2,081,019	-	2,081,019
Timber sales	221,669	-	221,669
Drilling fees	18,778	-	18,778
Grant revenues	657,984	-	657,984
Miscellaneous	413,234	1,586	414,820
	<hr/>	<hr/>	<hr/>
Total revenues	9,252,646	1,896	9,254,542
	<hr/>	<hr/>	<hr/>
Expenditures			
General and administrative	1,999,223	14,915	2,014,138
Maintenance of facilities	1,675,723	-	1,675,723
Maintenance of campground facilities	2,058,722	-	2,058,722
Spillway operation	293,972	-	293,972
Policing	813,817	-	813,817
Property improvement costs	-	48,849	48,849
Special projects	1,545,542	-	1,545,542
Miscellaneous costs	662,393	-	662,393
	<hr/>	<hr/>	<hr/>
Total expenditures	9,049,392	63,764	9,113,156
	<hr/>	<hr/>	<hr/>
Net Change in Fund Balances	203,254	(61,868)	141,386
	<hr/>	<hr/>	<hr/>
Fund Balances, Beginning of Year	4,597,835	338,507	4,936,342
	<hr/>	<hr/>	<hr/>
Fund Balances, End of Year	\$ 4,801,089	\$ 276,639	\$ 5,077,728
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Pearl River Valley Water Supply District
A Component Unit of the State of Mississippi
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to
the Statement of Activities
Year Ended June 30, 2013

Total Net Change in Governmental Fund Balance	\$ 141,386
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Amounts Reported for Governmental Activities in the Statement of
Activities are Different Because

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the difference between net depreciation expense (\$2,107,151) and capital outlays (\$2,153,801) during the year.	46,650
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Workers' compensation liabilities payable to the Department of Finance, State of Mississippi are measured by the amounts paid during the year in the statement of activities. However, in the governmental funds, expenses are accrued as incurred.	34,633
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Compensated absences are measured by the amounts earned during the year in the statement of activities. However, in the governmental funds, expenditures are measured by the amount of financial resources used (essentially, the amount actually paid).	<div style="border-top: 1px solid black; border-bottom: 3px double black;">19,948</div>
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Change in net position of governmental activities	<div style="border-top: 1px solid black; border-bottom: 3px double black;">\$ 242,617</div>
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Pearl River Valley Water Supply District
A Component Unit of the State of Mississippi
Statement of Revenues, Expenditures and
Changes in Fund Balance
Budget to Actual – General Fund
Year Ended June 30, 2013

	General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Interest on investments	\$ 8,000	\$ 2,303	\$ (5,697)
Lease rentals	5,600,000	5,683,088	83,088
Assignment fees	95,000	77,530	(17,470)
Building permit fees	85,000	97,041	12,041
Campground fees	2,200,000	2,081,019	(118,981)
Timber sales	200,000	221,669	21,669
Development fees	50,000	-	(50,000)
Grant revenues	3,500,000	657,984	(2,842,016)
Miscellaneous	250,000	432,012	182,012
	<u>11,988,000</u>	<u>9,252,646</u>	<u>(2,735,354)</u>
Total revenues			
Expenditures			
Salaries, wages and fringe benefits	4,330,000	3,564,848	765,152
Travel	24,000	16,144	7,856
Contractual services	2,800,000	3,571,809	(771,809)
Commodities	1,300,000	1,400,507	(100,507)
Equipment and special projects	2,200,000	720,442	1,479,558
Loans, subsidies and grants	450,000	25,000	425,000
Expenditure transfers from proprietary fund	300,000	(249,358)	549,358
	<u>11,404,000</u>	<u>9,049,392</u>	<u>2,354,608</u>
Total expenditures			
Net Change in Fund Balance	<u>\$ 584,000</u>	<u>\$ 203,254</u>	<u>\$ (380,746)</u>

Pearl River Valley Water Supply District
A Component Unit of the State of Mississippi

Statement of Net Position
Proprietary Fund - Enterprise Fund
June 30, 2013

Assets

Current Assets

Cash	\$ 3,128,931
Customer receivables	314,662
Other receivables	22,267
	<hr/>
Total current assets	3,465,860

Noncurrent Assets

Capital assets	
Construction in process	582,425
Machinery and equipment	1,701,025
Water and sewer system	20,189,794
Less accumulated depreciation	(10,384,771)
	<hr/>
Net capital assets	12,088,473
	<hr/>
Total assets	\$ 15,554,333

Liabilities and Net Position

Current Liabilities

Accounts payable	\$ 105,902
Accrued liabilities	45,716
Customer deposits	314,938
Due to other funds	656,232
	<hr/>
Total current liabilities	1,122,788

Noncurrent Liabilities

Noncurrent accrued liabilities	109,428
	<hr/>

Net Position

Net investment in capital assets	12,088,473
Unrestricted	2,233,644
	<hr/>
Total net position	14,322,117
	<hr/>
Total liabilities and net position	\$ 15,554,333

Pearl River Valley Water Supply District
A Component Unit of the State of Mississippi
Statement of Revenues, Expenses and
Changes in Net Position
Proprietary Fund - Enterprise Fund
Year Ended June 30, 2013

Operating Revenues	
Water sales	\$ 1,614,242
Tapping fees	8,500
Sewer charges	1,379,984
Pipeline maintenance fees	122,562
Miscellaneous	<u>34,364</u>
Total operating revenues	<u>3,159,652</u>
Operating Expenses	
Salaries, wages and fringe benefits	795,142
Sewer disposal usage	413,843
Utilities	268,175
Repairs and maintenance	585,513
Depreciation	664,399
Supplies and materials	151,810
Professional fees and services	151,348
Other	<u>239,996</u>
Total operating expenses	<u>3,270,226</u>
Operating Loss	(110,574)
Nonoperating Revenues	
Interest income	<u>2,212</u>
Loss Before Capital Grants	(108,362)
Capital Grants	<u>22,267</u>
Change in Net Position	(86,095)
Net Position, Beginning of Year	<u>14,408,212</u>
Net Position, End of Year	<u><u>\$ 14,322,117</u></u>

Pearl River Valley Water Supply District
A Component Unit of the State of Mississippi

Statement of Cash Flows
Proprietary Fund - Enterprise Fund
Year Ended June 30, 2013

Operating Activities

Receipts from customers and other	\$ 3,089,255
Payments to suppliers for goods and services	(1,783,583)
Payments to employees for services	<u>(795,142)</u>

Net cash provided by operating activities	<u>510,530</u>
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Noncapital Financing Activities

Advances from other funds, net	<u>509,764</u>
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Net cash provided by noncapital financing activities	<u>509,764</u>
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Capital and Related Financing Activities

Purchase of capital assets	(356,699)
Capital grants	<u>128,148</u>

Net cash used in capital and related financing activities	<u>(228,551)</u>
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Investing Activities

Interest income on investments	<u>2,212</u>
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Net cash provided by investing activities	<u>2,212</u>
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Increase in Cash	793,955
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Cash, Beginning of Year	<u>2,334,976</u>
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Cash, End of Year	<u><u>\$ 3,128,931</u></u>
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Reconciliation of Operating Loss to Net Cash Provided by Operating Activities

Operating loss	\$ (110,574)
Depreciation	664,399
Changes in operating assets and liabilities	
Customer and other receivables	(70,397)
Accounts payable and accrued liabilities	<u>27,102</u>

Net Cash Provided by Operating Activities	<u><u>\$ 510,530</u></u>
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Pearl River Valley Water Supply District
A Component Unit of the State of Mississippi
Notes to Basic Financial Statements
June 30, 2013

Note 1: Summary of Significant Accounting Policies

Organization

Pearl River Valley Water Supply District (the District) is a special purpose state agency which owns and operates the Ross Barnett Reservoir. The District was created by an act of the Mississippi Legislature in 1958.

Government-wide Financial Statements

Government-wide financial statements are prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements (i.e., the statement of net position and the statement of activities) do not provide information by fund or account group, but distinguish between the District's governmental activities and business-type activities. Specifically, the statement of net position includes noncurrent assets which were previously recorded in the General Fixed Asset Account Group. In addition, the government-wide statement of activities reflects depreciation expense on the District's fixed assets. Also, the effect of significant interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers who purchase, use or benefit from the services provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Unrestricted interest income and other items not properly included among program revenues are reported as general revenues.

Fund Financial Statements

In addition to the government-wide financial statements, the District has presented separate financial statements for its governmental funds and proprietary funds. Governmental fund financial statements use the modified accrual basis of accounting and the current financial resources measurement focus, and proprietary fund financial statements use the accrual basis of accounting and the economic resources measurement focus. Major individual governmental funds and the individual enterprise fund are reported as separate columns in the fund financial statements. The General Fund, Capital Projects Fund and Enterprise Fund are considered major funds.

The following major governmental and proprietary funds are used by the District:

- **Governmental Funds** – Governmental Funds are used to account for the District's expendable financial resources and related liabilities (except those accounted for in the Proprietary Fund). The following are the District's governmental fund types:

General Fund – The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. Its revenues are primarily derived from lease rentals and campground fees. Its expenditures primarily relate to the operation and maintenance of the District.

Pearl River Valley Water Supply District
A Component Unit of the State of Mississippi
Notes to Basic Financial Statements
June 30, 2013

Capital Projects Funds – Capital Projects Funds are used to account for financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The following capital projects accounts are maintained by the District:

Property Improvement Account – The Property Improvement Account is used to account for the cost of developing and leasing commercial areas and residential lots.

District Bond Campground and Park Improvement Account – The District Bond Campground and Park Improvement Account is used to account for the cost of capital improvements at campgrounds and parks maintained by the District. In accordance with Senate Bill No. 2988, the District is authorized to borrow money and issue bonds in amounts not to exceed \$10,000,000 to finance the projects. There was no activity in this account during the year ended June 30, 2013.

- **Proprietary Funds** – Proprietary Funds are used to account for activities that are similar to those often found in the private sector. The measurement focus is on determining net income and capital maintenance. The Enterprise Fund is used to account for the activities of the water and sewer operations and is financed through user charges.

Fund Balance – Governmental Funds

The fund balances for the District's governmental funds are displayed in five components.

- ***Nonspendable*** – Amounts that are not in a spendable form or are required to be maintained intact.
- ***Restricted*** – Amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.
- ***Committed*** – Amounts that can be used only for the specific purposes determined by resolution of the board of directors. Commitments may be changed or lifted only by issuance of a resolution by the board of directors.
- ***Assigned*** – Amounts intended to be used by the District for specific purposes as determined by management. In governmental funds other than the General Fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.
- ***Unassigned*** – The residual classification for the General Fund and includes all amounts not contained in the other classifications.

The District considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. The District applies

Pearl River Valley Water Supply District
A Component Unit of the State of Mississippi
Notes to Basic Financial Statements
June 30, 2013

committed amounts first, followed by assigned amounts and then unassigned amounts when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Net Position – Government-wide Financial Statements

Net position of the District is classified in three components. Net investment in capital assets consists of capital assets, net of accumulated depreciation. Restricted net position is the noncapital position that must be used for a particular purpose, as specified by creditors or grantors external to the District. Unrestricted net position is the remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets or restricted net position.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The governmental-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are considered measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under usual accrual accounting.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the proprietary fund's principal ongoing operations. The principal operating revenue of the District's Enterprise Fund is the activities of the water and sewer operations and is financed through user charges and contractual maintenance agreements. Operating expenses for the Enterprise Fund include expenses of administering the water and sewer systems. All other sources of revenues and expenses are reported as nonoperating revenues and expenses.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues, expenditures/expenses and other changes in net position and fund balances during the reporting period. Actual results could differ from those estimates.

Pearl River Valley Water Supply District
A Component Unit of the State of Mississippi
Notes to Basic Financial Statements
June 30, 2013

Cash Equivalents

The District considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. At June 30, 2013, the District held no cash equivalents.

Accounts Receivable

Accounts receivable consist of water and sewer charges to residents and rentals due from the lease of property. Accounts receivable are recorded net of estimated uncollectible amounts. No allowance is recorded at June 30, 2013.

Capital Assets

Capital assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are recorded at historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Furniture and equipment	3 to 10 years
Dams and other improvements	20 to 50 years
Water distribution system	20 to 50 years

Compensated Absences

Section 25-3-97, Mississippi Code Ann. (1972), authorizes payment for a maximum of 30 days accrued personal leave in a lump sum upon termination of employment. No payment is authorized for accrued major medical leave unless the employee presents medical evidence that his or her physical condition is such that he or she can no longer work in a capacity of state government. At June 30, 2013, accumulated unpaid personal leave up to a maximum of 30 days per employee is reported as accrued vacation on the statement of net position.

The District's policies permit most employees to accumulate vacation and compensatory time benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned, whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for compensatory time benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Compensatory time benefits expected to be realized as paid time off are recognized as expense when the time off occurs, and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date, plus an additional amount for compensation-related payments such

Pearl River Valley Water Supply District
A Component Unit of the State of Mississippi
Notes to Basic Financial Statements
June 30, 2013

as Social Security and Medicare taxes computed using rates in effect at that date. The estimated compensated absences liability expected to be paid more than one year after the balance sheet date is included in other long-term liabilities.

Interfund Activity

All outstanding balances between funds are reported as due to/from other funds in the fund financial statements. Any balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as “interfund balances.”

Income Taxes

As a state agency, the District is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the District is subject to federal income tax on any unrelated business taxable income.

Budget

The District prepares annual budgets for the General Fund and Enterprise Fund. The District uses the following procedures in establishing the budgetary data submitted for state approval:

- Approximately one year before the State’s next fiscal year begins, the District prepares a proposed operating budget for that year. The operating budget includes proposed expenditures and the means of financing them.
- At the beginning of August, the proposed budget for the fiscal year commencing the following July is submitted to the Mississippi Department of Finance and Administration and the Legislative Budget Office. Budget hearings are conducted which may result in recommendations for changes.
- In January, the proposed budget and the recommendations proposed by the Joint Legislative Budget Committee are presented to the Legislature. The Legislature makes any revisions it deems necessary or appropriate and then legally enacts the District’s budget in the form of an appropriation bill. The enacted budget is on an overall district basis. However, the budget presented in these financial statements is for the General Fund only.
- The District is authorized to transfer budgeted amounts between major expenditure classifications on a limited basis subject to approval by the Mississippi Department of Finance and Administration. The final budget, which is the same as the original budget, is used for budget comparison purposes.
- Budgets for the District are adopted on a basis consistent with accounting principles generally accepted in the United States of America and were established for the year ended June 30, 2013 by House Bill No. 1609.

Pearl River Valley Water Supply District
A Component Unit of the State of Mississippi
Notes to Basic Financial Statements
June 30, 2013

Risks and Uncertainties

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Except as described below, the District carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The State manages tort claims through the retention of all liability exposure administered by the Tort Claims Board. Statutory regulations provide some protection, as well as a limitation of liability, for claims filed against state agencies and state employees. The District purchases commercial insurance for certain areas not covered by the State specific to the District's operations. In the last three years, settled claims have not exceeded commercial coverage. Claims payments are financed through an annual assessment to all state agencies based on amount of payroll and past loss history. Estimates of the liability for unpaid claims are actuarially determined based on observed patterns of claims payments, as well as the experience of similar programs in other states.

The District finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust (MPEWCT), a public entity risk pool. The District pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$1,000,000 for each accident and completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability. However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation, effective January 1, 2013 to January 1, 2014. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

Change in Accounting Principles

Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, issued December 2010, is effective for the District for the year ended June 30, 2013. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in Financial Accounting Standards Board (FASB) and AICPA pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. This Statement also supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. There was no effect on the fund balance or net position of the District with the adoption of GASB 62.

Pearl River Valley Water Supply District
A Component Unit of the State of Mississippi
Notes to Basic Financial Statements
June 30, 2013

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, is effective for periods beginning after December 15, 2011. It provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position (which is the net residual amount of the other elements). This Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. GASB 63 also amends certain provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets. There was no effect on the fund balance or net position of the District with the adoption of GASB 63.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* is effective for periods beginning after December 15, 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The District early adopted GASB 65; however, this Statement had no impact on the financial statements during the current fiscal period.

Note 2: Deposits and Investments

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the District's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC).

The District is authorized to invest in bonds or other negotiable obligations of, or guaranteed by, the United States of America.

Pearl River Valley Water Supply District
A Component Unit of the State of Mississippi
Notes to Basic Financial Statements
June 30, 2013

Note 3: Capital Assets

Capital assets and related activity for the year ended June 30, 2013, consist of the items shown below.

	Balance July 1, 2012	Additions	Disposals	Balance June 30, 2013
Governmental activities				
Capital assets not being depreciated				
Land	\$ 7,688,569	\$ -	\$ -	\$ 7,688,569
Capital assets being depreciated				
Furniture and equipment	4,474,831	720,442	(14,396)	5,180,877
Dams and other improvements	57,326,197	1,433,359	-	58,759,556
Total capital assets being depreciated	61,801,028	2,153,801	(14,396)	63,940,433
Less accumulated depreciation for				
Furniture and equipment	3,748,321	337,639	(14,396)	4,071,564
Dams and other improvements	38,106,217	1,769,512	-	39,875,729
Total accumulated depreciation	41,854,538	2,107,151	(14,396)	43,947,293
Total capital assets being depreciated, net	19,946,490	46,650	-	19,993,140
Total governmental activities capital assets, net	\$ 27,635,059	\$ 46,650	\$ -	\$ 27,681,709
Business-type activities				
Capital assets not being depreciated				
Construction in process	\$ 533,602	\$ 48,823	\$ -	\$ 582,425
Capital assets being depreciated				
Furniture and equipment	1,600,969	103,145	(3,089)	1,701,025
Water and sewer system	19,985,603	204,191	-	20,189,794
Total capital assets being depreciated	21,586,572	307,336	(3,089)	21,890,819
Less accumulated depreciation for				
Furniture and equipment	908,020	151,958	(3,089)	1,056,889
Water distribution system	8,815,981	512,441	(540)	9,327,882
Total accumulated depreciation	9,724,001	664,399	(3,629)	10,384,771
Total capital assets being depreciated, net	11,862,571	(357,063)	540	11,506,048
Total business-type activities capital assets, net	\$ 12,396,173	\$ (308,240)	\$ 540	\$ 12,088,473

Pearl River Valley Water Supply District
A Component Unit of the State of Mississippi
Notes to Basic Financial Statements
June 30, 2013

Depreciation expense for governmental activities related to dams and the related improvements were allocated to the spillway operation in the statement of activities. The remaining depreciation expense was primarily allocated to maintenance of facilities.

Note 4: Interfund Receivables and Payables

Interfund receivables and payables at June 30, 2013, follow.

	Interfund Receivables	Interfund Payables
Governmental Funds		
General Funds	\$ 759,591	\$ -
Capital Projects Funds		103,359
Proprietary Fund		
Enterprise fund	-	656,232
	<u>\$ 759,591</u>	<u>\$ 759,591</u>

At June 30, 2013, the majority of interfund borrowing was due to the general and administrative allocation between the General and Enterprise Funds. Management expects all interfund borrowing to be repaid within the next fiscal year.

Pearl River Valley Water Supply District
A Component Unit of the State of Mississippi
Notes to Basic Financial Statements
June 30, 2013

Note 5: Long-term Liabilities

The following is a summary of long-term obligation transactions for the District for the year ended June 30, 2013.

	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013	Amounts Due Within One Year
Governmental activities					
Accrued compensated					
absences	\$ 356,131	\$ -	\$ (19,948)	\$ 336,183	\$ 41,123
Accrued workers'					
compensation liability	238,079	-	(34,633)	203,446	-
	594,210	-	(54,581)	539,629	41,123
Business-type activities					
Accrued compensated					
absences	78,175	-	(4,379)	73,796	9,027
Accrued workers'					
compensation liability	52,261	-	(7,602)	44,659	-
	130,436	-	(11,981)	118,455	9,027
	<u>\$ 724,646</u>	<u>\$ -</u>	<u>\$ (66,562)</u>	<u>\$ 658,084</u>	<u>\$ 50,150</u>

Note 6: Operating Leases

The District is a party to a member payment agreement with the Madison County Wastewater Authority, whereas the District provides a 20% share of costs, including debt service associated with operating certain facilities for the collection, transportation and treatment of wastewater. As the District retains no ownership rights to the facilities, the debt service portion of the cost is considered to be operating leases. These leases expire between 2024 and 2032. Rental payments include minimum rentals, plus related interest.

Pearl River Valley Water Supply District
A Component Unit of the State of Mississippi
Notes to Basic Financial Statements
June 30, 2013

Future minimum lease payments at June 30, 2013, were:

2014	\$ 132,706
2015	132,706
2016	132,706
2017	132,706
2018	132,706
2019-2023	663,532
2024-2028	403,892
2029-2032	<u>121,730</u>
	<u><u>\$ 1,852,684</u></u>

Note 7: Land Leases

Prior to completion of the District's Ross Barnett Reservoir project in 1965, the District acquired, by negotiation or through eminent domain proceedings, substantially all the land along the shoreline of the Ross Barnett Reservoir. The District from time to time leases improved land to developers and individuals for commercial and residential development purposes. Before leases are executed, developers and/or lessees reimburse the District for the direct and indirect costs of streets, water, sewer and other improvements and planning, development and marketing expenses incurred by the District. The leases generally have initial primary terms of 60 years, with options to renew for additional 60-year terms. Lease rentals are based on the estimated fair value of the property for the purpose and use specified in the lease, determined under circumstances and market conditions existing at the date of the lease. Some of the lease agreements contain rental escalators as predetermined in the lease agreements. The leases are classified as operating leases, and rental income is recorded in the General Fund as billed.

At June 30, 2013, the District was a party to approximately 6,300 leases which yield aggregate annual rental income of approximately \$5,200,000. Remaining primary terms under these leases range from 0 to 60 years.

Pearl River Valley Water Supply District
A Component Unit of the State of Mississippi
Notes to Basic Financial Statements
June 30, 2013

Note 8: Defined Benefit Pension Plan

Plan Description

The District contributes to the Public Employees' Retirement System of Mississippi (PERS) a cost-sharing, multiple-employer, defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. This information may be obtained by contacting PERS.

Funding Policy

The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. PERS members are required to contribute 9.00% of their annual covered salary. The District is required to contribute at an actuarially determined rate; the rate was 14.26% of annual covered payroll for 2013. The District's contributions to the plan for the years ended June 30, 2013, 2012 and 2011 were approximately \$435,000, \$379,000 and \$371,000, respectively, which equaled the required contributions for each year.

Note 9: Deferred Compensation Plan

The State of Mississippi offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The term "employee" means any person, whether appointed, elected or under contract, providing services for the State of Mississippi, state agencies, counties, municipalities or other political subdivisions for which compensation is paid. The plan permits employees of the District to defer a portion of their income until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan; all property and rights purchased with those amounts; and all income attributable to those amounts, property or rights are (until paid or made available to the employee or other beneficiary) held in a separate trust account for the benefit of participants and their beneficiaries, and, accordingly, no liability is recorded by the District for amounts due under the plan.

Pearl River Valley Water Supply District
A Component Unit of the State of Mississippi
Notes to Basic Financial Statements
June 30, 2013

Note 10: Contingencies

Federal Grants

The District has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a grantor audit may become a liability of the District. No provision for any liability that may result has been recognized in the District's financial statements.

Litigation

The District is subject to other claims and lawsuits that arose primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net position and cash flows of the District. Events could occur that would change this estimate materially in the near term.

Supplementary Information

Pearl River Valley Water Supply District
A Component Unit of the State of Mississippi
Schedule of Expenditures of Federal Awards
June 30, 2013

Federal Agency/ Pass-Through Entity Program Title	CFDA Number	Pass-Through Entity's Number	Amount
U.S. Department of Defense/Corps of Engineers			
Mississippi Environmental Infrastructure (Section 592)	12.124	W807PM02676476	\$ 22,267
Total U.S. Department of Defense/Corps of Engineers			22,267
U.S. Department of Transportation			
Passed Through Mississippi Department of Transportation			
Highway Planning and Construction Cluster			
Highway Planning and Construction Program	20.205	STP-0045-00(020)	15,530
Highway Planning and Construction Program	20.205	STP-6945-00(005)	3,200
Highway Planning and Construction Program	20.205	STPD-6945-00(007)	3
			<u>18,733</u>
Passed Through Office of Public Safety			
Highway Safety Cluster			
State and Community Highway Safety	20.600	13-OP-422-1	10,605
Alcohol Open Container Requirements	20.607	13-TA-422-1	41,871
			<u>52,476</u>
Total U.S. Department of Transportation			71,209
U.S. Department of Homeland Security			
Passed Through Mississippi Department of Homeland Security			
Homeland Security Grant Program	97.067	09LE292	9,680
Homeland Security Grant Program	97.067	S10LE292	2,400
Homeland Security Grant Program	97.067	10LE292	50,000
Total U.S. Department of Homeland Security			62,080
U.S. Department of Justice			
Passed Through Office of Justice Programs			
Bulletproof Vest Partnership Program	16.607	BUBX07036872	1,414
Edward Byrne Memorial Justice Assistance Grant Program	16.738	11LB4221	3,000
Total U.S. Department of Justice			4,414
U.S. Department of Interior			
Passed Through Mississippi Department of Wildlife, Fisheries and Parks			
Fish and Wildlife Cluster			
Sport Fish Restoration Program	15.605		475,457
Total U.S. Department of Interior			475,457
Total Expenditures of Federal Awards			\$ 635,427

Pearl River Valley Water Supply District
A Component Unit of the State of Mississippi
Note to Schedule of Expenditures of Federal Awards
June 30, 2013

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**Independent Auditor's Report on Internal Control
Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of the Financial
Statements Performed in Accordance
With *Government Auditing Standards***

Board of Directors
Pearl River Valley Water Supply District
Ridgeland, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund of Pearl River Valley Water Supply District (the District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 16, 2013.

Internal Control over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the District's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and, therefore, there can be no assurance that all material weaknesses have been identified. However, as discussed in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2013-001 and 2013-002 to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's Responses to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Other Matters

We also noted certain matters that we reported to the District's management in a separate letter dated December 16, 2013.

The purpose of this communication is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLC

Jackson, Mississippi
December 16, 2013

**Independent Auditor's Report on Compliance with
Requirements that Could Have a Direct and Material Effect on
Each Major Program and on Internal Control Over Compliance in
Accordance with OMB Circular A-133**

Board of Directors
Pearl River Valley Water Supply District
Ridgeland, Mississippi

Report on Compliance for Each Major Federal Program

We have audited the compliance of Pearl River Valley Water Supply District (the District) with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the District's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, Pearl River Valley Water Supply District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance that we considered to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2013-003.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Other Matters

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

BKD, LLC

Jackson, Mississippi
December 16, 2013

Pearl River Valley Water Supply District
A Component Unit of the State of Mississippi
Schedule of Findings and Questioned Costs
June 30, 2013

Section 1: Summary of Auditor's Results

1. The opinion expressed in the independent auditor's report was:

☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimed

2. The independent auditor's report on internal control over financial reporting disclosed:

(A) Significant deficiency(ies)? ☐ Yes ☒ None Reported

(B) Material weakness(es)? ☒ Yes ☐ No

3. Noncompliance considered material to the financial statements was disclosed by the audit? ☐ Yes ☒ No

4. The independent auditor's report on internal control over compliance with requirements that could have a direct and material effect on major federal awards programs disclosed:

(C) Significant deficiency(ies)? ☒ Yes ☐ None Reported

(D) Material weakness(es)? ☐ Yes ☒ No

5. The opinion expressed in the independent auditor's report on compliance with requirements that could have a direct and material effect on major federal awards was:

☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimed

6. The audit disclosed findings required to be reported by OMB Circular A-133? ☒ Yes ☐ No

Pearl River Valley Water Supply District
A Component Unit of the State of Mississippi
Schedule of Findings and Questioned Costs (Continued)
June 30, 2013

7. The District's major program was:

Cluster/Program	CFDA Number
Fish and Wildlife Cluster Sport Fish Restoration Program	15.605

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$300,000.
9. The District qualified as a low-risk auditee as that term is defined in OMB Circular A-133? ☐ Yes ☒ No

Section 2: Findings Required to be Reported by Government Auditing Standards

Reference Number	Finding
2013-001	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal controls over financial reporting.</p> <p>Condition – The District relies on its outside auditors to assist in the preparation of external financial statements and related footnote disclosures.</p> <p>Context – Under auditing standards generally accepted in the United States of America, outside auditors cannot be considered a part of the District's control structure, and the design of the District's internal control structure does not include procedures for the preparation of external financial statements.</p> <p>Effect – Potentially material misstatements in the financial statements and the related footnote disclosures could occur and not be prevented or detected by the District's internal control structure.</p> <p>Cause – The District has not designed internal control procedures for preparing external financial statements.</p>

Pearl River Valley Water Supply District
A Component Unit of the State of Mississippi
Schedule of Findings and Questioned Costs (Continued)
June 30, 2013

Reference Number	Finding
	<p><i>Recommendation</i> – Management should periodically evaluate the costs versus the benefits of developing internal control procedures or other compensating controls over the preparation of external financial statements and implement those changes it deems appropriate for which benefits are determined to exceed costs.</p> <p><i>Views of Responsible Officials and Planned Corrective Action</i> – The District acknowledges this comment and will work toward improvement in the financial reporting process in the coming year.</p>
2013-002	<p><i>Criteria or Specific Requirement</i> – Management is responsible for establishing and maintaining effective internal controls over financial reporting.</p> <p><i>Condition</i> – The District does not have adequate procedures for the routine reconciliation of significant receivable and payable accounts.</p> <p><i>Context</i> – The District did not perform formal, routine reconciliations of significant balance sheet accounts, and the design of the District’s control system did not provide for these reconciliations.</p> <p><i>Effect</i> – Material misstatements in the financial statements were not prevented or detected by the District’s internal control structure. These material misstatements were corrected by the District in the accompanying financial statements through audit entries.</p> <p><i>Cause</i> – The District has not designed internal control procedures for routine reconciliation of receivable and payable accounts.</p> <p><i>Recommendation</i> – The District should implement an internal control procedure for formal, written routine reconciliations of receivable and payable accounts. This reconciliation procedure should include written sign-offs by both a preparer and a reviewer for each reconciliation completed.</p> <p><i>Views of Responsible Officials and Planned Corrective Action</i> – The District will add to its internal control structure a control for the routine, formal reconciliation of receivable and payable accounts.</p>

Pearl River Valley Water Supply District
A Component Unit of the State of Mississippi
Schedule of Findings and Questioned Costs (Continued)
June 30, 2013

Section 3: Findings Required to be Reported Under OMB Circular A-133

Reference Number	Finding	Questioned Costs
2013-003	<p>Federal Program – Sport Fish Restoration Program, CFDA No. 15.605, grant year 2013, U.S. Department of Interior, passed through the Mississippi Department of Wildlife, Fisheries and Parks.</p> <p>Criteria or Specific Requirement – Procurement, Suspension and Debarment – Federal regulations require that grant recipients making purchases of goods or services must verify whether the contracting party has been excluded from conducting business under federal programs by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity or adding a clause or condition to the covered transaction with the entity (2 CFR Part 180).</p> <p>Condition – The District’s procurement procedures under federal awards does not include a verification check of the EPLS, the collecting of a certification or adding a contract clause.</p> <p>Context – The District did not verify that lower-tier vendors were not suspended or debarred or otherwise excluded from the conduction of business with federal funds by checking the EPLS maintained by the GSA, collecting a certification from the vendor or adding a clause or condition to the covered transaction with the vendor.</p> <p>Effect – Although the District did not ensure vendors were not suspended or debarred, no covered transactions were conducted with excluded parties in the sample of items we tested.</p> <p>Cause – The District does not have procedures in place to verify that lower-tier vendors engaged in covered transactions are not suspended or debarred from conducting business with federal funds.</p> <p>Recommendation – The District should implement a policy, whereas this verification is accomplished by checking the EPLS maintained by the GSA, collecting a certification from the vendor or adding a clause or condition to the covered transaction with the vendor.</p>	\$ 0

Pearl River Valley Water Supply District
A Component Unit of the State of Mississippi
Schedule of Findings and Questioned Costs (Continued)
June 30, 2013

Reference Number	Finding	Questioned Costs
	<p><i>Views of Responsible Officials and Planned Corrective Action</i> – The District will perform a verification check through one of the three acceptable means for all covered transactions under federal programs in order to determine if an entity has been debarred or suspended from doing business with federal funds.</p> <p>The District’s Director of Finance will be the person responsible for implementing the corrective action.</p> <p>The corrective action was implemented during December 2013.</p>	

Pearl River Valley Water Supply District
A Component Unit of the State of Mississippi
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2013

Reference Number	Summary of Finding	Status
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No matters are reportable.